

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY	)	
	)	Docket No. 15-0305
	)	
Ameren Illinois Company Rate MAP-P	)	
Modernization Action Plan – Pricing	)	
Annual Update Filing	)	

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**DIRECT TESTIMONY OF MICHAEL L. BROSCH  
ON BEHALF OF THE  
PEOPLE OF THE STATE OF ILLINOIS**

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**AG Exhibit 1.0**

**JULY 13, 2015**

ILLINOIS COMMERCE COMMISSION  
DOCKET NO. 15-0305  
DIRECT TESTIMONY OF MICHAEL L. BROSCHE

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AG Exhibit No. 1.1	Summary of Qualifications
AG Exhibit No. 1.2	Prior Testimony Listing
AG Exhibit No. 1.3	Summary of AG Ratemaking Adjustments
AG Exhibit No. 1.4	Excerpts of Michael L. Brosch testimony in Docket Nos. 13-0501/0517 (cons.)
AG Exhibit No. 1.5	Ameren response to Data Request AG 4.02.
AG Exhibit No. 1.6	Ameren response to Data Request AG 3.11.
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AG Exhibit No. 1.8	Ameren Advertisement Nos. 20.1, 21, 46, 54, and 54.3.
AG Exhibit No. 1.9	Ameren response to Data Request AG 3.09.
AG Exhibit No. 1.10	Ameren response to Data Request AG 4.08.
AG Exhibit No. 1.11	sAmeren responses to Data Requests AG 3.04 (with attachments) and AG 4.04.

**I. INTRODUCTION / SUMMARY**

1 **Q. Please state your name and business address.**

2 A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas  
3 City, Missouri 64148-1934.

4  
5 **Q. By whom are you employed and in what capacity?**

6 A. I am a principal in the firm Utilitech, Inc., a consulting firm engaged primarily in  
7 utility rate and regulation work. The firm's business and my responsibilities are  
8 related to the conduct of regulatory projects for utility regulation clients. These  
9 services include rate case reviews, cost of service analyses, jurisdictional and class  
10 cost allocations, financial studies, rate design analyses, utility reorganization  
11 analyses, the design and administration of alternative regulation mechanisms, and  
12 focused investigations related to utility operations and ratemaking issues.

13 **Q. On whose behalf are you appearing in this proceeding?**

14 A. I am appearing on behalf of the People of the State of Illinois represented by the  
15 Attorney General ("AG").

16 **Q. Will you summarize your educational background and professional experience**  
17 **in the field of utility regulation?**

18 A. Yes. AG Exhibit No. 1.1 summarizes my education and professional qualifications.  
19 I have testified before utility regulatory agencies in Arizona, Arkansas, California,  
20 Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico,  
21 Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory  
22 proceedings involving electric, gas, telephone, water, sewer, transit, and steam  
23 utilities. A listing of my previous testimonies in utility regulatory proceedings is set

forth in AG Exhibit No. 1.2. As noted in this listing, I have testified in several major Illinois proceedings before the Illinois Commerce Commission (“the Commission” or “ICC”), including multiple cases involving Peoples Gas Light & Coke Company, North Shore Gas Company, Commonwealth Edison Company (“ComEd” or the “Company”), and the Ameren Illinois Company (“Ameren” or “AIC”). Those cases include each of the prior four rounds of formula rate case proceedings for ComEd and Ameren, Docket Nos. 11-0721, 12-0321, 13-0318, 14-0312, 12-0001, 12-0293, 13-0301, and 14-0317. I also provided testimony in the Commission’s Investigation Docket No. 13-0533 addressing certain formula rate template issues, including consideration of the need to apply interest to reconciliation balances on a net of income tax basis. My direct testimony was recently filed in ComEd’s pending 2015 formula rate case, Docket No. 15-0287.

**Q. What is the purpose of your testimony in this docket?**

A. My testimony is responsive to the formula rate and revenue requirement calculations of Ameren that are sponsored by various Company witnesses and are summarized in Ameren Exhibit 1.2.<sup>1</sup> I have included as AG Exhibit 1.3 a summary of ratemaking adjustments to Ameren’s formula rate update calculations, excluding the AG proposed change to the reconciliation interest calculation discussed below. I have also incorporated within AG Exhibit 1.4 excerpts from my previous Direct and Rebuttal Testimony in Docket Nos. 13-0501/0517 (cons.) regarding the treatment of Accumulated Deferred Income Taxes (“ADIT”) that are associated with the formula rate reconciliation balance.

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<sup>1</sup> Ameren Exhibit 1.2 contains the overall formula rate template calculations and is supported by workpapers contained in Ameren Ex. 1.3 as well as multiple other exhibits.

**Q. Please summarize the recommendations that are set forth in your testimony.**

A. I have previously testified that, when the cash recovery of a portion of an electric utility's revenue requirement is delayed under the formula rate reconciliation process used in Illinois, the utility's taxable income is temporarily reduced and income tax payments are deferred until future periods when the revenues are collected. Unfortunately, the Commission concluded in a recent review of ComEd's formula rate template, Docket No. 13-0553, that ADIT balances arising from the delayed recovery of reconciliation revenues should not serve as an offset to the reconciliation balance that accrues interest. The Commission's determination on this matter was appealed by the Attorney General and other parties to Docket No. 13-0553, and a ruling on review is pending.

I sponsored Direct and Rebuttal Testimony in Docket Nos. 13-0501/0517 (cons.) explaining why it is appropriate to apply reconciliation interest to the reconciliation revenues net of associated deferred income taxes ("ADIT"). I also sponsored certain edits to formula rate Schedule FR A-4, within Exhibit 2 to the AG Complaint in that docket, illustrating how to implement the net-of-tax calculation of interest on the reconciliation balance. A copy of relevant portions of my Docket No. 13-0501/0517 (cons.) testimony and AG Complaint Exhibit 2 from that docket are included in AG Exhibit 1.4. Those excerpts detail the need for that adjustment in any formula rate update case and preserve this disputed issue within the record of the instant proceeding, in case there is any Appellate Court ruling in favor of the Attorney General. I incorporate that discussion by reference in my testimony here.

I also propose an adjustment to the input value for the State of Illinois Corporate Income Tax that is used within the formula rate template. The currently

effective statutory Illinois corporate income tax rate is 7.75 percent, which should be used to establish the Company's revenue requirement, rather than the temporarily higher 9.5 percent rate from 2014 that is no longer in effect, but has been employed by Ameren in its formula rate calculations in the instant case.

I also respond in my testimony to Ameren's new lead lag study of Cash Working Capital ("CWC"), explaining an adjustment to the revenue collection lag that is needed to more accurately estimate the Company's CWC requirement to be included in rate base.

Finally, I propose an adjustment to the Company's advertising and public relations expenses in the test year, so as to remove the costs associated with expenditures that are primarily driven by Ameren's desire to enhance its corporate image and promote goodwill toward the Company.

**Q. What information have you relied upon in formulating your recommendations?**

A. I relied upon Ameren's pre-filed testimony and exhibits in this Docket, as well as the Company's responses to data requests submitted by the Commission Staff and the AG. I have referenced a copy of Section 16-108.5 of the Public Utilities Act, 220 ILCS 5/16-108.5, which was provided to me by counsel. I also rely upon my prior experience with the regulation of public utilities over the past 36 years, including significant experience with alternative forms of regulation for energy utilities in Illinois and other states.

**Q. Have you prepared any accounting schedules to summarize the adjustments being proposed in your testimony?**

A. Yes. AG Exhibit 1.3 is a summary of the revenue requirement revisions being proposed in my testimony, excluding the reconciliation interest calculation modification issue. On pages 3-6 of my Exhibit 1.3, modifications to input values on the Company's formula rate update filing sheets are indicated by outlining cells in red. It should be noted that I have not, with available time and resources, been able to conduct a complete review of all aspects of the Company's filing. As a result, the limited adjustments I propose should be viewed as cumulative with the work and recommendations of Commission Staff and other parties' witnesses.

## II. RECONCILIATION DEFERRED TAXES

**Q. In a prior Ameren formula rate update proceeding, Docket No. 13-0301, did you recommend a modified ratemaking treatment for a specific element of the Company's recorded ADIT balance?**

A. Yes. In my prior testimony<sup>2</sup> I recommended that the Commission reduce the reconciliation balance to which the interest rate is applied, to recognize the Company's actual incremental investment in such balances after the deferral of income taxes is considered.

**Q. Did the Commission address your recommendation in its Final Order in Docket No. 13-0301?**

A. No. This issue was removed from the previous formula update proceeding and was actually considered and decided in Docket No. 13-0501/13-0517 (consolidated).<sup>3</sup>

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<sup>2</sup> Docket No. 13-0301, AG Exhibit 1.0, pages 9-17.

<sup>3</sup> Order, Docket No. 13-0301, December 9, 2013, pages 142-143.

115 **Q. What did the Commission decide with respect to reconciliation-related ADIT**  
116 **balances in Docket Nos. 13-0501 / 13-0517 (cons.)?**

117 A. The following statements are set forth in the Commission Analysis and Conclusions  
118 discussion of income tax deferrals associated with the reconciliation balance interest  
119 calculations:

120 The Commission disagrees with AIC that EIMA is quite as  
121 “specific” or clear in its language as they would contend and finds  
122 merit in the AG’s position, supported by CUB. This approach  
123 conforms to GAAP, would capture deferred tax benefits, and is  
124 likely a more accurate accounting for all of the economic impacts  
125 caused by revenue requirement reconciliation. The Commission,  
126 however, finds itself in a similar position to the one taken by Staff  
127 in this proceeding. While there may be merit to the AG’s proposal  
128 and while there may be some debate as to the plain meaning of the  
129 Act, the Commission is troubled by the fact that although Section  
130 16-108.5(d)(1) fails to prohibit such accounting treatment, the  
131 converse is also true—it does not appear to require or even  
132 reference it. Further, where the Act does intend that adjustments be  
133 made to an amount of a balance, it has done so specifically, as in  
134 the case of projected plant additions which are to be included on a  
135 net basis considering updated depreciation reserve and expense,  
136 220 ILCS 5/16-108.5(c)(6), or in the ROE collar calculation where  
137 the utility is required to apply a credit or charge that “reflects an  
138 amount equal to the value of that portion of the earned rate of  
139 return on common equity that is more than 50 basis points higher  
140 [or lower] than the rate of return on common 269 equity calculated  
141 pursuant to paragraph (3) of this subsection (c)...for the prior rate  
142 year, adjusted for taxes.” 220 ILCS 5/16-108.5(c)(5).

143  
144 The Commission would note that this is not the first time the  
145 clarity of this subsection concerning the reconciliation balance has  
146 been called into question and that the legislature has already once  
147 amended it. Thus, it is difficult for the Commission to support an  
148 interpretation of the Act which reads into it exceptions, limitations,  
149 or conditions the legislature did not express. *Davis v. Toshiba*  
150 *Machine Co.*, 186 Ill.2d 181, 184-185 (1999). In addition, the  
151 Commission has concerns about AIC’s argument that the AG’s  
152 proposal would make a temporary timing difference permanent.  
153 This issue could have benefited from additional discussion by the  
154 parties and was not adequately addressed in testimony and  
155 briefing.

156



157 Considering all the arguments presented regarding the meaning of  
158 Section 16-108.5(d)(1), the Commission cannot at this time  
159 support the AG and CUB's interpretation. For purposes of this  
160 proceeding, AIC is entitled to the full reconciliation balance with  
161 interest calculated at a rate equal to the utility's weighted average  
162 cost of capital approved by the Commission for the prior year. In  
163 the future, if further arguments by parties are presented or clarity  
164 from the legislature is provided on this topic, the Commission will  
165 revisit the issue.  
166

167 On advice of counsel, I understand that this decision by the Commission has been  
168 appealed and remains under review by the Illinois Appellate Court, First Judicial  
169 District, docketed as Nos. 1-14-0275 and 1-14-0403 (cons.) and has been fully  
170 briefed by the parties.

171 **Q. Did the Commission address the appeal of the reconciliation deferred tax issue**  
172 **in Ameren's most recent formula rate update proceeding?**

173 A. Yes. In its Final Order in ComEd Docket No. 14-0317, the Commission stated,  
174 "The Commission notes that this issue is under judicial review in the appeal of  
175 Docket No. 13-0553 relating to ComEd. The Commission anticipates that the  
176 outcome of that appeal will provide needed clarity on this issue. Therefore, despite  
177 its misgivings about the appropriateness of AIC's position, AIC is entitled to interest  
178 calculated on the full reconciliation balance without any deduction for ADIT."<sup>4</sup>

179 **Q. What are the documents that are included within AG Exhibit 1.4?**

180 A AG Exhibit 1.4 contains copies of excerpts from my Direct and Rebuttal Testimony  
181 that were filed in Docket No. 13-0501/0517 (cons.) to address the reconciliation  
182 deferred income tax issue mentioned above. AG Exhibit 1.4 also contains a copy of  
183 the modified formula rate template Schedule FR A-4 that I sponsored in that earlier

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<sup>4</sup>

Order dated December 10, 2014, Docket No. 14-0317, at 67.

184 docket to illustrate exactly how to modify the reconciliation so as to implement the  
185 needed adjustment.

186 **Q. Why have you included excerpts of previous testimony you submitted to**  
187 **address this issue?**

188 A. I am advised by counsel that this information may be useful to the Commission if it  
189 wishes to revisit this issue or in the event the Appellate Court issues a decision on  
190 this disputed issue. I am hereby adopting my prior testimony excerpted in AG  
191 Exhibit 1.4 as part of my direct testimony in this proceeding.

192

193 **III. STATE INCOME TAX RATE**

194

195 **Q. What is the currently effective Illinois Corporate State Income Tax rate?**

196 A. The currently effective State Income Tax (“SIT”) rate is 7.75 percent, comprised of  
197 a tax on corporate Net Income of 5.25 percent plus Personal Property Tax  
198 Replacement Income Tax at a rate of 2.5 percent. Prior to January 1, 2015, an  
199 overall SIT rate of 9.5 percent was in effect, including income tax at 7.0 percent  
200 plus Personal Property Replacement Income Tax of 2.5 percent.<sup>5</sup>

201 **Q. What SIT rate has been included by Ameren in the determination of formula**  
202 **rates to be charged in 2016?**

203 A. Ameren’s formula rate calculations generally use the higher 9.5 percent SIT rate  
204 that was effective prior to January 1, 2015 to calculate both the 2014 reconciliation  
205 year and the 2016 Initial Rate Year revenue requirement. The use of this higher  
206 rate can be observed in Ameren Ex. 1.2, page 12 (Sch. FR C-4) at line 2 and in

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<sup>5</sup> 35 ILCS 5/201(a)(11) and 5/201(d).

Ameren Ex. 1.3 at page 215 (WP 21) at line 2. However, at Ameren Ex. 1.3 at pages 152 to 154 (WP Ameren's Workpaper 9 and MFR Schedule C-5.2) one can observe that "Deferred Income Tax Expense" was provided in 2014 at multiple different SIT rates, including "Total Temporary Differences at IL 9.5%" on line 42, at 7.75% on line 75, at 7.730576% at line 77, and at 7.3% on line 83 (the resulting deferred income tax expense amount appears at line 96).

**Q. Will the use of the 2014 SIT rate of 9.5 percent in the determination of the Company's revenue requirement, as proposed by Ameren, result in excessive charges to ratepayers in 2016, when new electric delivery service rates become effective?**

A. Yes. The higher 2014 SIT should not be used for either the 2014 reconciliation year or for the determination of Initial Rate Year 2016 charges. The currently effective SIT rate is the appropriate input to the formula rate template at this time.

**Q. Why should the higher 2014 SIT rate of 9.5 percent not be used to calculate the reconciliation revenue requirement for calendar year 2014, since the higher rate was effective that year?**

A. Stated simply, Ameren has no State income taxes payable for the reconciliation year 2014 for its delivery service revenue requirement, because its delivery service taxable income in 2014 was negative. This means that all of the Company's calculated State income taxes for 2014 were "deferred" income taxes that will be payable in later years, under the lower SIT rates effective at that time. Negative currently payable (for 2014) State income taxes can be observed throughout the Company's filing, including the following schedules and exhibits:

- Schedule C-1, page 12, line 127

- 231 • Schedule C-1 Reconciliation, page 12, line 127
- 232 • Schedule C-5a, page 3, lines 68 and 69
- 233 • Ameren Ex. 1.3, page 53, MFR Schedule B-8, line 27
- 234 • Ameren Ex. 1.3, page 55, MFR Schedule B-8, line 27
- 235 • Ameren Ex. 1.2, page 19 (App 3), line 27a
- 236 • Ameren Ex. 1.2, page 20 (App 3), line 57a

237 When deductions for accelerated depreciation and other book/tax timing differences  
238 allow Ameren to defer the payment of State income taxes on electric distribution  
239 business operations to years after 2014, the Company will permanently save on  
240 such taxes by paying in future years when, if no changes are made, SIT rates will be  
241 lower.

242 Additionally, when the incremental revenues sought by Ameren in its  
243 filing for both years are actually collected from ratepayers in 2016, the effective  
244 SIT rate will be 7.75 percent, rather than the higher 2014 rate being used by  
245 Ameren.

246 **Q. Did Ameren actually pay any State Income Taxes in 2014, when the higher SIT**  
247 **rates were effective?**

248 A. No. According to the Company's response to data request AG 4.02(b), "In 2014,  
249 Ameren Illinois received net Illinois state income tax refunds of \$10,993,812 from  
250 Ameren Corporation (the parent company)" as more fully detailed in that response.  
251 Additionally, this response states, "[b]ased on the Company's recorded 2014  
252 income tax provision, Ameren Illinois Company is expected to be in a loss position  
253 on the 2014 Illinois income tax return." I have included a copy of the Company's  
254 responses to AG 4.02 within AG Exhibit 1.5.

In fact, rather than paying State income taxes, Ameren has accumulated a State Net Operating Loss Carry Forward deferred tax asset (“NOL-DTA”) because of its prior years’ cumulative State taxable losses. As a result, Ameren has included a tax loss carryforward deferred tax asset of approximately \$5.7 million for “State Effect of Illinois NOL” as an increase to its asserted rate base.<sup>6</sup> The existence of this NOL-DTA at December 31, 2014 further indicates that the Company has not been paying Illinois State income taxes at the higher statutory rate that was effective prior to 2015.

**Q. Why has Ameren applied the higher 9.5 percent statutory tax rate to its determination of revenue requirements?**

A. According to the Company’s response to data request AG 3.11, “Ameren Illinois bases its formula rate update calculation on 220 ILCS 5/16-108.5 subpart (d) 1” from which the Company concludes, “This provision does not provide for adjustments for single issues outside the FERC Form 1 calendar year (2014 in this update) other than for the impact of projected plant additions, and corresponding adjustments, for the year in which the update is filed. Thus, no adjustments are included in this update filing to actual 2014 costs or projected 2015 costs for the 2015 tax rate change.”

Ameren also argues that, “[t]he Company’s calendar year 2015 will be reconciled, in the Company’s formula rate update filing next year, using the actual Illinois State Corporate Income Tax rate in effect for calendar year 2015. Absent

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<sup>6</sup> See Ameren Ex. 1.3, page 60 (Workpaper 4) at line 11.

276 another change in tax law, that rate is currently 7.75%.” A full copy of this  
277 response is included within AG Exhibit 1.6.

278 **Q. Does the FERC Form 1 dictate the use of State Corporate Income Tax Rates**  
279 **from any single year, as implied by Ameren’s response to AG 3.11?**

280 A. No. The FERC Form 1 has no mandatory reporting of statutory state income tax  
281 rates.<sup>7</sup> What is reported in the Form 1 are the amounts of deferred and currently  
282 payable income tax expenses for the year, regardless of the tax rates at which such  
283 amounts are recorded.

284 **Q. Has Ameren adjusted any of the balances reported within its 2014 FERC Form**  
285 **1 in order to recognize the lower 7.75% Illinois SIT rate that is effective in**  
286 **2015?**

287 A. Yes. According to Ameren’s response to data request AG 4.15, “[t]he Illinois Net  
288 Operating Loss (NOL) on WPB-9a reflects the lower 7.75% Illinois corporate  
289 income tax rate effective in Illinois when the NOL carryforward will be able to be  
290 utilized in future tax years. The deferred tax asset for the Illinois NOL was reduced  
291 to the lower 7.75% rate as part of the 2014 year-end tax provision calculation.” I  
292 have included a copy of this response, without its voluminous attachments, within  
293 Exhibit AG 1.7.

294 **Q. Should the Commission accept Ameren’s argument, in the response to data**  
295 **request AG 3.11 that the future reconciliation of 2015 revenue requirements**  
296 **will remedy any over-collection of State income taxes?**

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<sup>7</sup> Ameren does disclose the changes in Illinois corporate income tax rates that have occurred and are scheduled to occur at page 123.60 of its FERC Form 1.

297 A. No. Ratepayers should not bear the burden of excessive rates earlier, in order to  
298 receive a larger reconciliation credit two years later. The currently effective 7.75  
299 percent SIT rate should be entered as an input directly into Sch. FR C-4, line 2,  
300 where Ameren is now using the higher 9.5 percent rate. I have illustrated this  
301 change within the red-outlined cell of AG Exhibit 1.3, page 3 of 7.

302 **Q. Is it reasonable to also employ the statutory 7.75 percent SIT rate effective in**  
303 **2015 for the reconciliation year 2014, even though the statutory rate in that**  
304 **year was higher?**

305 A. Yes. As noted above, timing differences between the recognition of certain  
306 expenses under tax accounting and under accrual accounting, caused Ameren's  
307 electric distribution business operation to experience negative state taxable income  
308 and negative currently payable Illinois Corporate Net Income Tax in 2014.  
309 Ameren's recorded State NOL-DTA is further evidence of the Company's non-  
310 payment of Illinois income taxes in 2014. The Company, therefore, has paid no  
311 income taxes at the higher 9.5 percent SIT rate that was effective in 2014, but will  
312 instead will pay such taxes at the lower SIT rates that are effective after 2014, when  
313 the deferred income taxes that were recorded in 2014 later become payable.

314 **Q. What are deferred income taxes?**

315 A. Deferred income taxes represent an accounting provision for the amounts of  
316 additional income taxes that are estimated to become receivable or payable in future  
317 periods, because of differences between book accounting and income tax  
318 accounting with respect to the timing of revenue or expense recognition. Generally  
319 Accepted Accounting Principles ("GAAP") require use of an accrual basis  
320 accounting method that must be used to recognize revenues, expenses, and income

321 within the publicly issued financial statements of public utilities such as Ameren  
322 Corporation. In contrast, the accounting methods and procedures specified to  
323 determine revenues and expenses (deductions) and taxable income for income tax  
324 purposes are defined by the Internal Revenue Code (“IRC” or “Code”) and  
325 applicable State laws.

326 Differences in GAAP versus Code accounting cause what are  
327 characterized as book/tax differences. Many of these book/tax differences are  
328 temporary because they arise from timing differences, where a specific cost is  
329 deductible for tax purposes in a different year than for book purposes – the primary  
330 example being depreciation expenses that are recorded on a straight-line basis for  
331 book accounting, but are based upon accelerated lives and methods and/or “bonus”  
332 depreciation methods for income tax accounting and reporting purposes. Timing  
333 differences can also occur where the book basis of depreciable property includes  
334 different costs than the tax basis or whenever an anticipated expense is recognized  
335 on an accrual-basis for book purposes, but is deductible in a different year, when  
336 the expense is actually paid in cash by the taxpayer.

337 Specific provisions within GAAP<sup>8</sup> require recognition of income tax  
338 impacts from these book/tax timing differences, by recording deferred tax expense  
339 or income with the other “side” of this entry contributing to ADIT assets or  
340 liabilities. ADIT assets generally occur when revenue taxation occurs prior to book  
341 recognition of the revenues or when the tax deductibility for expenses is later than  
342 the book recognition of the expense. ADIT liabilities, on the other hand, represent

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<sup>8</sup> GAAP accounting requirements for Income Taxes are set forth within Financial Accounting Standards Board Accounting Standards Codification 740.



343 delayed taxation of revenues or advance deduction of expenses, in relation to the  
344 timing of the same transactions on the books. ADIT balances exist to recognize that  
345 certain tax expenses are determinable today, but actually become payable in the  
346 future whenever book/tax timing differences ultimately reverse.

347 **Q Why is accounting for ADIT required under GAAP?**

348 A Full and complete accounting for income tax expenses must recognize that filing  
349 tax returns and paying income taxes will impact tax expenses payable in more than  
350 one accounting period. The relevant GAAP requirements are stated within  
351 Accounting Standards Codification 740 ("ASC 740"). Under ASC 740, there are  
352 two primary objectives related to accounting for income taxes:

- 353 a. To recognize the amount of taxes payable or refundable for the current  
354 year; and,  
355 b. To recognize deferred tax liabilities and assets for the future tax  
356 consequences of events that have been recognized in an entity's financial statements  
357 or tax returns.

358 Recorded ADIT amounts arise from part (b) of this standard, where recognition is  
359 given on the books to the future tax consequences of transactions that are treated  
360 differently in financial statements than on tax returns.

361 **Q. Under GAAP, should Deferred Income Taxes be recorded at the presently**  
362 **effective tax, or at the income tax rate that is expected to be effective in the**  
363 **future, when book/tax timing differences reverse and the tax impacts become**  
364 **currently payable?**

365 A. Expected income tax rates are required to be used in recorded deferred income  
366 taxes. GAAP accounting requires a liability method approach to deferred tax

recognition, so as to record the best available estimate of the taxes that will actually become payable or receivable in future years, at then current tax rates. Specifically, ASC 740-10-10-3 states:

10-3 Conceptually, a deferred tax liability or asset represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year. That concept is an incremental concept. A literal application of that concept would result in measurement of the incremental tax effects as the difference between two measurements:

- a. The amount of taxes that will be payable or refundable in future years inclusive of reversing temporary differences and carryforwards.
- b. The amount of taxes that would be payable or refundable in future years exclusive of reversing temporary differences and carryforwards.

However, in light of the constraints identified in the preceding paragraph, in computing the amount of deferred tax liabilities and assets, the objective is to measure a deferred tax liability or asset using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. [emphasis added]<sup>9</sup>

**Q. Has Ameren recognized this GAAP requirement with regard to the SIT rate used on its books to record deferred income taxes at the tax rates expected to be effective in future years?**

A. Yes. At Ameren Ex. 1.3, pages 152-154 (WP 9) the Company groups the listed, “Deferred Tax Items” and applies different SIT rates to each group, at lines 42, 75, 77 and 83, depending upon the SIT rate expected to be effective when the listed book/tax timing differences are expected to reverse. Then, Ameren proposes a net downward adjustment to income tax expenses for SIT rate differences at line 14 that

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<sup>9</sup> Financial Accounting Standards Codification 740-10-10-3. The reference to the “preceding paragraph” refers to constraints associated with knowledge about future conditions. Specifically, ASC 740-10-10-2(c) states, “Information about the future is limited. As a result, attribution of taxes to individual items and events is arbitrary and, except in the simplest situations, requires estimates and approximations.”

is captioned, “Blended rate adjustment” in the jurisdictional amounts of \$1.67 million, less \$4.76 million (at lines 87 and 97). This net downward adjustment appears to reduce 2014 State Deferred Income Tax Expense for a calculated impact associated with the scheduled change in SIT rates, but no detailed support for these net adjustments has been provided by the Company.

**Q. If Ameren has already adjusted downward certain of its deferred tax expenses on WP 9 to recognize the decline in SIT rates after 2014, why is your proposed SIT rate adjustment at Sch. FR C-4 necessary?**

A. The Company’s WP 9 net “blended rate” reduction to income tax expenses, which is posted at first at Ameren Exhibit 1.2, page 29 (App 9) at line 2 and then at page 12 (Sch FR A-4) at line 10, captures only the incremental adjustments to recorded ADIT balances that are needed to recognize lower future SIT rates that are scheduled to be effective when prior years’ book/tax timing differences reverse. The WP 9 net adjustment to recorded ADIT balances appears to be backward looking, restating only the Company’s per book actual ADIT balances at December 31, 2014 to account for scheduled reductions in SIT rates. In order to ensure that Ameren ratepayers pay rates in 2016 that reflect the Company’s actual income tax expense, what is needed is a full accounting for the overstatement of State Income Taxes within the Company’s asserted revenue requirement that will result from the formulaic application of SIT rates. This full accounting for the tax rate change is provided by changing the input tax rates on Schedule FR C-4, as proposed in my adjustment.

The Company’s proposed formula rate calculation determines the revenue requirement using the higher statutory tax rates that are entered at Sch. FR C-4.

421 This calculation embeds incremental income taxes, at the input tax rates on Sch. FR  
422 C-4, on the entire revenue requirement, including the full amount of any needed rate  
423 increase that will be collected entirely in future periods, when actual SIT rates are  
424 lower. The relevant formula calculations can be observed within the “After Tax  
425 Return on Rate Base” on Sch. FR A-1 at line 15, which is multiplied by an  
426 “Incremental Tax Gross Up Factor (%)” to include Federal and State Income taxes  
427 captioned as “Incremental Tax Gross Up,” at lines 16 and 17, respectively. The  
428 same sequence of calculations appears on Sch. FR A-1-REC for the reconciliation  
429 period.

430 This process embeds within both the prospective and reconciliation  
431 revenue requirements higher income taxes at 2014 statutory SIT rates on the entire  
432 amount of annual revenues being sought by Ameren, even though some of that  
433 revenue requirement will actually be collected (and subject to income tax) in years  
434 subsequent to 2014 when SIT rates are lower. The Company’s Blended Rate tax  
435 adjustments inserted at WP 9 do not have this effect and must be reconciled to the  
436 revenue requirements resulting from the incorrect application of the 2014 SIT rate  
437 in determining rates and revenues that will be taxed entirely at the lower, currently-  
438 effective SIT rates.

439 Q. **How should the adjustment you propose be implemented?**

440 A. The “Illinois State Tax Rate (%)” used as an input to the formula on Sch. FR C-4,  
441 line 2 should be revised to 7.75 percent. Making this adjustment to Ameren Ex. 1.2  
442 reduces the Company’s asserted net revenue requirement by the amounts shown on  
443 line 2 of AG Exhibit 1.3.

Then, Ameren's WP 9 adjustment to income tax expense may require revision to conform it to utilization of currently effective SIT rates in the template calculation. Because of the absence of detailed support for the jurisdiction amounts input by Ameren for its Blended Rate adjustments at WP 9, lines 87 and 97, any required revisions to this entry cannot be determined at this time.<sup>10</sup>

**Q. Will the revenue requirement impact of recognizing the lower SIT rate vary, depending upon the Commission findings on other issues in this proceeding?**

A. Yes. The SIT rate change I recommend should be applied after any adjustments to rate base that may be ordered by the Commission, in determination of the revenue requirement within the reconciliation and rate year calculations.

#### IV. ADVERTISING EXPENSES

**Q. What amounts of Selling, Advertising and Miscellaneous Sales Expenses have been included by AIC in its asserted revenue requirement?**

A. According to Schedule C-8, the Company is seeking recovery of \$3.049 million of such expenses after it makes "Ratemaking Adjustments" to self-disallow \$126,000 of such expenses.

**Q Has the Company provided any detailed breakdown of its charges to each of the Accounts that are listed on Schedule C-8 within workpapers provided with its filing?**

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<sup>10</sup> Data Request AG 5.1 was submitted to Ameren on July 6, 2015 to elicit additional information regarding the Company's WP 9 income tax adjustment and was unanswered at the time this testimony was finalized on July 13, 2015.

465 A Yes. Company witness Mr. Kennedy provided an Excel file containing a detailed  
466 list of charges to Accounts 909, 910, 923 and 930 by vendor, indicating which of  
467 such charges have been disallowed by Ameren-proposed ratemaking adjustments.  
468 According to Mr. Kennedy's testimony:

469 Additional Part 295.40 Workpapers are being provided to  
470 Commission Staff that provide a third level of detail as to the  
471 advertising expenses included in and excluded from the revenue  
472 requirement. The Part 295.40 Workpapers identify the voucher  
473 number, vendor name, necessity/description, and electric amount for  
474 the individual charges that make up the aggregated amounts listed on  
475 the C-8 Schedule and Part 295.40 Schedule. The additional Part  
476 295.40 Workpapers also identify the individual charges that have  
477 been excluded. The Part 295.40 Workpapers also identify and cross-  
478 reference an "ad example" that will be provided separately to  
479 Commission Staff at the time of the filing.<sup>11</sup>  
480

481 I relied upon the Excel and Powerpoint file associated with these submissions,  
482 captioned "Kennedy DWP 1\_Advertising Expenses.xls" and "Kennedy DWP  
483 3\_RateCasePowerpoint 041515.ppt" respectively, in my review of advertising  
484 associated with the further adjustment to advertising expenses that I recommend.

485 **Q Did you recommend any advertising adjustments in the Company's previous**  
486 **formula rate case?**

487 A Yes. In Docket No. 14-0317 I proposed removal of advertising costs associated  
488 with the Company's "Focus Forward" campaign. In its Order in that docket, the  
489 Commission accepted the adjustment I proposed, stating:

490 However, the Commission finds that the content of the  
491 advertisements, rather than informing or educating the public  
492 about AIC's system upgrades and how they will impact service, is  
493 consistent with the goal of improving AIC's image. The  
494 information provided in the Focus Forward advertisements does  
495 not direct attention to particular investments or types of benefits

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<sup>11</sup> Ameren Ex. 5.0, page 28, lines 611-615.

so as to generate interest in the details and motivate the public to visit the Company's website to get specific, detailed information. The Commission concurs with the AG's assessment that the advertisements leave the impression that consumers need not worry about these matters, suggesting that AIC is making these investments "so you can focus your energy on things that really matter to you." Without more, the statement "[l]earn how you can take control at AmerenIllinois.com" is insufficient to render the advertisements educational so as to be recoverable in rates. The Commission finds the Focus Forward advertisements are goodwill advertisements. The related expenditures of \$274,468 are disallowed.<sup>12</sup>

**Q Has Mr. Kennedy acknowledged the Commission's Order disallowing the "Focus Forward" image advertising costs in Docket No. 14-0317?**

**A** Yes. However, Mr. Kennedy proposes no conforming adjustment for the 2014 year, even though Ameren continued to fund image advertising with similar messaging in 2014. Instead, Mr. Kennedy observes, "[t]he "Focus Forward – Manage Energy Use" adjustment approved by the Commission in Docket 14-0317 was to remove production and publication costs associated with 15 and 30-second broadcast spots that the Commission considered to be goodwill advertising. AIC did not incur any production and publication costs in 2014 associated with the specific advertisements at issue in Docket 14-0317."<sup>13</sup>

**Q Is it surprising that AIC didn't incur costs in 2014 for the "specific advertisements at issue in Docket 14-0317"?**

**A** Not at all. I would hope that Ameren didn't elect to pay again in 2014 for the same advertisements that were funded in 2013 and that were disallowed in the Commission's prior order. A reasonable expectation would be for Mr. Kennedy

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<sup>12</sup> Order dated December 10, 2014, Docket No. 14-0317, at 53.

<sup>13</sup> Ameren Ex. 5.0, page 30, line 648.

and Ameren to apply the same criteria the Commission adopted in Docket No. 14-0317 to the specific advertisements and costs that were incurred in 2014 to make the appropriate disallowances, but this was not done.

**Q. How did you evaluate the Advertising costs recorded by Ameren within Account 909 Informational and Instructional Advertising Expenses in 2014?**

A. As noted above, I relied upon the Excel file “Kennedy DWP 1\_Advertising Expenses.xls” and the advertising images and scripts within “Kennedy DCWP 3\_RateCasePowerpoint 041515.ppt” to determine which 2014 advertising expenses in Account 909 have been supported by advertising copy and then, based upon the content and primary messaging within that copy, whether the advertising costs should be disallowed. If the principle message within a particular advertisement is promoting the image that Ameren is providing safe and adequate service in Illinois, by working hard and investing in modernized infrastructure, the costs of that advertisement are not necessary and should not be borne by ratepayers. Alternatively, if the principle message is any of the topics identified as recoverable within Section 9-225(3) of the Public Utilities Act and the corresponding Part 295.30 of the Commission’s rules, the costs of the advertisement are not challenged in my adjustment.

**Q. Were there significant expenses recorded in Account 909 where the Company did not provide a reference to any advertising copy within Mr. Kennedy’s workpapers?**

A. Yes. For these listed expenses, unless the “Necessity/Description” column of Mr. Kennedy’s workpaper clearly states what benefits were realized by the Company and its ratepayers from the expenditure, I have disallowed it. For Account 909,



approximately \$385,000 in expense was disallowed on this basis. If the Company comes forward in Rebuttal with illustrative advertising copy or other specimen work product deliverables from the vendor to justify cost recovery for each of these undocumented advertising expenses, they should be reconsidered.

**Q. Have you proposed the disallowance of television ads that are of the same type disallowed by the Commission in Docket No. 14-0317?**

A. Yes. Advertisements numbered 20.1 and 21 in Mr. Kennedy's PowerPoint workpapers involved 2014 expenses totaling about \$574,000 with this principle message. These television ads include images of hardworking Ameren employees in a campaign through which Ameren seeks to instill a favorable public image of its business. The messaging planned for television Advertisement 20.1 states:

- In this campaign, which will accommodate electric and gas messaging, we plan to follow an Ameren Illinois employee as he/she talks about one of the forward-thinking initiatives that Ameren Illinois is doing. Each execution will be simple and include an end benefit. Each script would feature one employee in constant motion – walking throughout the length of the piece. Their energy and motion will underscore the themeline, 'Energy at Work'. We will cast someone who is likable, upbeat and has a dose of Midwestern humility. In short, someone who can make a meaningful and perception-shifting connection with the target audience.
- When a bad storm hits, we work 'round the clock 'til power is restored. We hate outages. That's why Ameren Illinois invests in improvements like next generation systems to reduce outages and keep pace with future energy needs.
  - And it's working. Here in Illinois, reliability is up 20 percent and last year alone we saved customers an estimated 57 million dollars.
  - We love savings. Hate outages, love savings.
  - Ameren Illinois Energy at work. Ameren.com

Similarly, advertisement number 21 includes a campaign of online video and radio audio ads highlighting Ameren's infrastructure investments, with imagery of Ameren employees explaining improvements to service, new technologies and improved reliability. These ads are clearly intended to foster favorable public

sentiment toward the Company, rather than providing any actionable information toward public safety, energy conservation or any other permitted advertising. For example, Mr. Kennedy's workpapers identify many of these charges from the vendor "ID Media" and related to the Company's "Focus Forward Campaign." This is the essentially same media campaign that was disallowed by the Commission in Docket No. 14-0317.<sup>14</sup> I have included in AG Ex. 1.8 complete copies of all of the advertisement 20.1, 21 and 46 documents that were included in Mr. Kennedy's workpapers in support of recovery of these expenses.

**Q. What are the other types of advertising that you have challenged in your adjustment?**

A. I have removed the costs of radio spots during Cardinals baseball games that characterize Ameren as supportive of economic development, a Fortune 500 Company employing talented people (Advertisement #46), another Infrastructure Improvement Campaign (Advertisement #54) and the Company's Facebook advertising that appears to be aimed at generating "likes" for the Company on social media (Advertisement #54.3). I have also included nos. 54 and 54.3 in AG Ex. 1.8.

**Q. How is the overall advertising adjustment you propose quantified within AG Exhibit 1.3?**

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<sup>14</sup> In its response to data request AG 4.14, asking about the "Focus Forward Campaign" the Company referred to its response to Staff request SRK 3.04, in which Staff asked about advertising costs captioned as "Focus Forward" in Mr. Kennedy's workpapers. In response to request SRK 3.04 the Company stated, "The advertisements that aired on TV in 2014, however, were different than those for which the costs disallowed in Docket 14-0317." That response also claims that, "In contrast, the 2014 ads...educated customers about the specific improvements that AIC is implementing to make the energy delivery system safer and more reliable." However, a review of the ads attached to SRK 3.04 reveals that they are Focus Forward image building ads of the same type disallowed in Docket 14-0317.

A. I reviewed the line item detail in Mr. Kennedy's workpapers for Advertising charges to various accounts and propose no adjustments for the advertising and related expenses recorded to Accounts 910, 923, 930 or 588. For the nearly 1,000 lines of detailed advertising charges to Account 909, I analyzed the descriptions and the advertising copy referenced in Mr. Kennedy's workpapers and am challenging \$1.1 million of the \$2.3 million of advertising expenses proposed for recovery by Ameren.<sup>15</sup> My resulting adjustment is posted in Ameren Ex. 1.2 at page 25, column (E) at line 16 and is additive to the Company's own \$35 (thousand) downward adjustment that is already posted at that template location.

**V. CASH WORKING CAPITAL**

**Q. Has Ameren submitted a revised lead lag study of its Cash Working Capital requirement in this Docket?**

A. Yes. In the direct testimony of Ameren witness Mr. Joseph Weiss, the Company presents the results of a lead-lag study prepared for AIC's electric business. According to Mr. Weiss, "I used that study to develop cash working capital factors (CWC factors). The CWC factors are used by Ameren witness Mr. Ronald D. Stafford to calculate the Company's cash working capital requirements."<sup>16</sup> Ameren Exhibit 8.1 summarizes the revised revenue lag and expense leads that result from this study. The lead/lag day values sponsored by Mr. Weiss are, in turn, included

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<sup>15</sup> See AG advertising Workpapers associated with this testimony.

<sup>16</sup> Ameren Exhibit 8.0, page 2, lines 40-42.

622 within Ameren Exhibit 1.2, pages 19 and 20 (App 3), to calculate CWC amounts  
623 included in rate base for the reconciliation year and the filing year, respectively.

624 **Q Does the updated lead/lag study sponsored by Mr. Weiss include any dramatic**  
625 **changes in the calculated lead/lag values used as inputs to App 3?**

626 A Yes. The single most important study result is the revenue lag and Mr. Weiss'  
627 newly proposed revenue lag is 55.68 days, which is dramatically longer than the  
628 49.75 day revenue lag that was approved by the Commission in Docket No. 12-  
629 0001 and that has been used by AIC in all formula rate determinations thereafter

630 Another substantial change proposed by Mr. Weiss involves the payment  
631 lead day value assigned to the Illinois Electric Distribution Tax ("IEDT"). The lead  
632 day for IEDT payments was 30.13 days in the Company's previously effective lead  
633 lag study.<sup>17</sup> Mr. Weiss is proposing a vastly different payment lead of negative  
634 49.17 days for IEDT, as if this tax is now being prepaid. The Cash Working Capital  
635 included in Ameren's rate base, as a result of the negative proposed payment lead  
636 day value, is much larger than the amount produced by the previously employed  
637 IEDT payment lead value.<sup>18</sup>

638 **Q Turning to his first major change, can the change to the revenue lag value be**  
639 **isolated to any particular element of that lag?**

640 A Yes. The total revenue lag is made up of five component parts. Mr. Weiss  
641 summarizes his results in a table presented in his testimony.<sup>19</sup> A side by side

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<sup>17</sup> Docket No. 12-0001, Ameren Ex. 4.2, line 17, column (C).

<sup>18</sup> In Ameren Ex. 1.2 at page 19 line 18, the Electric Distribution Tax increases Cash Working Capital Requirement in column (F) by \$5.88 million. If the 30.13 day payment lead from Ameren's previous lead lag study were retained for line 18, Cash Working Capital, the amount in column (F) would be negative \$3.61 million, a net reduction in CWC of \$9.49 million.

<sup>19</sup> Ameren Ex. 8.0, page 10, line 200.

comparison of this table to the Company’s previously employed lead lag study from Docket No. 12-0001, reveals that the majority of the difference is attributed to the “collections” portion of the overall revenue lag:

Revenue Lag Component	2015 Study Lag Days	Prior Study Lag Days <sup>20</sup>
Service	15.21	15.21
Billing	1.35	1.51
Collections	37.15	30.67
Payment Processing	1.16	1.39
Bank Float	0.81	0.97
Total Revenue Lag	55.68	49.75

In the Company’s proposed new study, the revenue collection lag is proposed to be nearly 6.5 days and about 21 percent longer than in Docket No. 12-0001.

**Q How much additional Cash Working Capital in rate base results from each day that is added to the revenue lag?**

**A** For the reconciliation year, approximately \$511 million of revenues are subjected to the Company’s proposed revenue lag, causing each added day of revenue lag to increase rate base by about \$1.4 million.<sup>21</sup> Thus, the Company’s updated revenue collection lag increases Ameren’s asserted rate base by about \$8.3 million.<sup>22</sup> Somewhat higher CWC impacts result from each day of added revenue collection lag in the filing year revenue requirements.

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<sup>20</sup> Docket No. 12-0001, Direct Testimony of David Heintz, Ameren Ex. 4.0, page 8.

<sup>21</sup> Ameren Ex. 1.2, page 19 at App 3 applies the revenue lag to lines 1 through 8, excluding lines 2 and 3, or \$511.053 million. One additional day of revenue lag changes the “Cash Working Capital Factor” in column (E) by 1/365 or 0.00274, which changes the “Cash Working Capital Requirement” in column (F) by .00274\*\$511.053 = \$1.405 million. The revenue amounts at Ameren Ex. 1.2, page 20 are somewhat higher.

<sup>22</sup> The newly proposed revenue lag is 5.93 days longer than the prior study result (55.68-49.75). \$1.4 million of CWC per revenue lag day times 5.93 added days yields an \$8.3 million CWC rate base impact.

657 **Q Have you identified any changes in Mr. Weiss' study methods that cause**  
658 **Ameren's customers to be shown to now be taking about six days longer to pay**  
659 **the Company for service?**

660 **A** Yes. Mr. Weiss has added several new components to his revenue collection lag  
661 study, relative to the methods previously employed by Ameren and accepted by the  
662 Commission:

- 663 • Account receivables associated with deferred payment arrangements  
664 pursuant to part 280.120 of the Illinois Administrative Code are now isolated  
665 for separate study. According to Mr. Weiss, "[t]he data has not historically  
666 been available in a manner that could be used in past CWC analyses."<sup>23</sup>
- 667 • An additional aging bucket for receivables more than 120 days old has been  
668 added, where the Company's prior study did not segregate receivables above  
669 90 days in age. This change adds about 1.4 days to the resulting revenue  
670 collection lag.
- 671 • Account receivables associated with the Company's budget billing offerings  
672 are now isolated for separate study.

673 These changes and their impacts are explained in the Company's response to data  
674 request AG 3.09, which I have included in Exhibit AG 1.9.

675 **Q. Do you agree with Mr. Weiss' change to consider the impact of deferred**  
676 **payment arrangements ("DPAs") in the revenue collection lag?**

677 **A.** I agree that DPAs should be considered. However, the period studied by Mr. Weiss  
678 provides excessive weight to several months prior to changes in the DPA program.

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<sup>23</sup> Ameren Ex. 8.0, page 8, line 168.

His analysis includes a 12-month period from October of 2013 through September of 2014. The majority of DPAs through April of 2014 were established with a term of 12 months. In later months, Ameren's DPA program was changed, as more fully described in Ameren's response to data request AG 4.07, resulting in more of the DPAs established with shorter duration, because of a new nine-month default term for such arrangements. According to Ameren's response to AG 4.07, "Although 'new' Part 280 was not effective until approximately 11/1/14, Ameren Illinois leveraged its time and resources to implement many of the new 280 changes while designing its new DPA functionality. The DPA changes were implemented 6/20/14 and included customer benefits such as the Low Income DPA and enhanced Medical Certification protections which are accompanied by a special DPA." I have included a copy of the Company's response to AG 4.07 and the related Attachment 6 within AG Exhibit 1.10.

**Q Have you modified the Company's treatment of DPAs to remove the effect of longer-term DPAs in the months prior to recent programs changes that were included by Mr. Weiss?**

**A** Yes. Since Ameren's DPA procedural changes were implemented in June of 2014, I have updated Mr. Weiss' study to use the monthly data provided in response to AG 4.07 for the period July 2014 through May 2015. This updating ensures that ongoing DPA policies after the changes made in June of 2014 are captured within the data being used to estimate collection lags.

**Q Have you accepted Ameren's inclusion of an additional over 120-day aged accounts receivable category?**

702 A Yes. Although it is questionable whether the Company's reduction of only 20  
703 percent for estimated uncollectible allowance is sufficient, given the extreme age of  
704 these receivables, I have accepted the Company's proposed inclusion of this  
705 category with the assignment of an assumed 120-day-age using the front-end of that  
706 aging category.

707 **Q Why has Ameren not assumed a mid-point estimate for the assumed cash**  
708 **receipt date associated with its receivables that are 120 or more days old?**

709 A According to Ameren's response to data request AG 4.08(b):  
710 The Company could have continued to age all receivables exceeding  
711 120 days outstanding using the midpoint methodology, but it was  
712 decided to cap the days outstanding at 120 days. Calculating the  
713 midpoint for each monthly period beyond 120 days would have  
714 increased the Company's cash working capital requirement. As such,  
715 the Company "conservatively" capped the days outstanding at 120  
716 days. This calculation has been adopted by the Commission in  
717 numerous rate proceedings for Ameren Illinois and Commonwealth  
718 Edison Company.  
719

720 **Q For the other Accounts Receivable aging categories, has the Company**  
721 **performed any analysis to determine when, in fact, Ameren actually collects**  
722 **revenues with the ranges of 0-30 days, 30-60 days, or 60-90 days?**

723 A No. Without any supporting analysis, the Company simply assumes that all of the  
724 receivables falling within the 0-30 day category are arrayed evenly around the mid-  
725 point of that period, on day 15. Similarly, for the 30-60 day category, an assumed  
726 mid-point of the period of 45 days is used as the average collection date without any  
727 further supporting analysis. For the 60-90 day category, Ameren has assumed  
728 without supporting analysis a mid-point average collection date on day 75, the mid-  
729 point of that period. I have included within AG Exhibit 1.10 a copy of the



730 Company's response to data request AG 4.08 that confirms this completely  
731 arbitrary approach and clearly shows the absence of any supporting documentation  
732 for the Company's grossly simplistic mid-point assumptions.

733 **Q. How sensitive is the Company's calculated revenue collection lag to Ameren's**  
734 **unsupported mid-point assumptions?**

735 A. The Company's mid-point assumption is extremely important to the resulting  
736 revenue collection lag. Consider, for example, that if the 15-day mid-point that  
737 Ameren has assumed for the 0-30 day aging category is inaccurate by only three  
738 days, the resulting overall revenue collection lag changes by more than two days,  
739 impacting rate base by about \$3 million.<sup>24</sup> It is quite possible that customer  
740 accounts within the 0-30 day category remit payments, on average, at day 12 or at  
741 day 18, rather than at day 15 as assumed by Ameren. Without more detailed data  
742 and further analysis, we cannot know whether the 15 day mid-point assumption is  
743 valid.

744 **Q. Do you propose any revisions to the Company's unsupported mid-point**  
745 **collection date assumptions?**

746 A. Yes. I believe it reasonable to somewhat front-weight each receivables aging  
747 category beyond the initial 0-30 day category. This approach is similar to  
748 Ameren's conservatism assumption that that Company used for the very old 120  
749 and over category, where the Company has assigned a 120-day front weighted  
750 collection date. Specifically, I recommend that revenue collection be assumed to

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<sup>24</sup> The 0-30 day category of receivables represents about 73% of all receivables. With a 73% weighting, a 3-day change, as if collections occurred on average at day 12 or at day 18, would translate into about 2.2 days of overall collection lag impact. At \$1.4 million per day, the resulting CWC impact exceeds \$3 million in rate base.

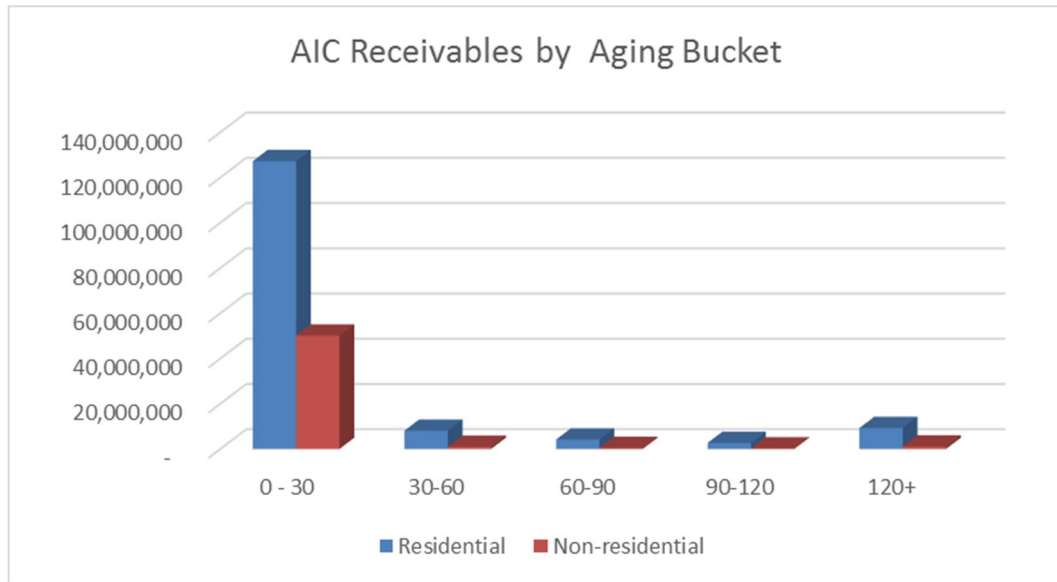
occur nearer the front of each of the 30-60 day, 60-90 day and 90-120 day categories, by assigning a 37.5 day collection date to the 30-60 day category, a 67.5 day collection date to the 60-90 day category of receivables and a 97.5 day value to the 90-120 day category. These values represent a middle of the front half weighting to establish the assumed collection point in each of these categories.<sup>25</sup>

**Q. Why is a front-weighting of the 30-60, 60-90 and 90-120 day receivables aging categories more reasonable than Ameren's mid-point assumption?**

A. The distribution of Ameren's receivables indicates the validity of a front-weighting of assumed collection dates. More than 86 percent of the aged accounts receivables that are included within Mr. Weiss' analysis are less than 30 days old. Similarly, the 30-60 day old category is more than twice the size of the 60-90 day category and the 60-90 day category is, in turn, larger than the 90-120 day old category. A graphical depiction of the front-weighting of average receivables reveals this pattern:

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<sup>25</sup> Each aging category is 30 days in duration. If half of all revenues are assumed to be collected only 25 percent of the days from the beginning of the category, the result would be collection 7.5 days into the category (30 days \* 25%).



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771 **Q.**

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774 **A.**

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Since the distribution of receivables across the Company's broad aging categories is skewed heavily toward the early categories, it is reasonable to also assume that the distribution within each category would be similarly front-weighted, if more granular weighted accounts receivable data were studied.

**Is it reasonable to assume that customers have a tendency to pay utility bills within due dates, if possible, so as to avoid late payment charges and the risk of service interruption?**

Yes. Additional support for the utilization of a front-weighted value, in place of Ameren's unsupported mid-point assumptions, can be found in the Company's tariff which defines payment due dates and makes provision for Late Payment Charges. According to Ill. C.C. No. 1, 1<sup>st</sup> Revised Sheet No. 3.017:

1. Non-SBO Customers Payment Period - Unless otherwise provided in 83 Ill. Adm. Code 280.50, bills will be due by the due date which will not be less than 21 days for Residential Customers and 14 days for Non-Residential Customers, after the postmark date of the bill.
2. RES Acting As a SBO Agent For Customers - A RES acting as a SBO Agent for Customers is required to forward to Company any payments received from

its Customers for Company provided service. The RES must provide remittance of the Customers payment to Company by the due date shown on the bill which shall not be less than 22 days for Residential Customers and 15 days for Non-Residential Customers from the date the Company sends the bill to the RES. The Customer retains ultimate financial responsibility to Company for the Delivery Services bill. Additionally, the RES shall be subject to the applicable terms and conditions of the Company's Supplier Terms and Conditions.

The Company shall treat any act or failure to make payment of any bill on the part of the RES acting as an SBO Agent as an act or failure of its Customer. The Company may enforce the terms of this Schedule against the Customer for any act or failure of the RES as if the act or failure had been that of the Customer. A failure on the part of the RES to transmit payments properly made by the Customer to the RES shall not relieve the Customer of its obligation to pay for Service provided by Company under this Schedule. The RES shall not take any action that shall compromise the Company's rights to proceed against the Customer under this Schedule for the Customer's failure or the RES's failure to comply.

3. RES Acting As SBO Guarantor For Customers – A RES acting a SBO Guarantor for bills rendered by Company shall be subject to the applicable terms and conditions of the Company's Supplier Terms and Conditions. The RES must provide remittance of total amount due to Company by the due date shown on the bill which shall not be less than 22 days for Residential Customers and 15 days for Non-Residential Customers from the date the Company sends the bill to the RES.
4. Payments and Late Payments - Failure to receive a bill shall in no way exempt a Customer or RES from the provisions set forth herein. Payments received by mail shall be deemed timely if received by the Company not more than two full business days after the due date printed on the bill. Payments physically delivered to the Company shall be considered as having been received as of the date received by the Company or its authorized agent. Payments made by any form of electronic medium shall be considered as having been received as of the date the funds are electronically deposited to the Company's account. In the event payment is not received by the last date for payment except as herein provided, a late payment charge equal to 1.5% per month will be assessed on any amount considered past due. A Customer that qualifies as a Low Income Customer shall not be assessed a late payment charge. When a "Deferred Payment Agreement" payment is received by the last date for payment, a late payment charge shall not be assessed on the outstanding "Deferred Payment Agreement" balance. The Company will waive the assessment of a late payment charge one time in a twelve-month period for Residential Customers.<sup>26</sup>

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Available at: <https://www.ameren.com/-/media/illinois-site/Files/Rates/AIel3otctc.pdf>.

830  
831 As this language makes clear, it is unreasonable for Mr. Weiss to simply assume  
832 that customer remittances occur ratably around the mid-point of each of his 30-60,  
833 60-90, and 90-120 day receivables aging blocks, when such amounts are entirely  
834 “past due” in those categories under the terms of the Company’s tariff. A more  
835 reasonable assumption is that customers strive to pay and generally do pay their  
836 electric bills as closely as possible to due dates in order to minimize exposure to  
837 late payment charges, potential collection activity and utility service disconnection,  
838 which would tend to focus such payments closer to the front of each category.

839 **Q. What is the impact upon the revenue collection lag of updating the DPA**  
840 **analysis data and adopting a middle of the front half collection date**  
841 **assumption for the three receivables aging categories?**

842 A. Instead of the 37.15 day collection lag now being proposed by Mr. Weiss, my  
843 revisions yield a revenue collection lag of 34.95 days. This value is still  
844 considerably longer than the 30.67 day result last approved by the Commission in  
845 Docket No. 12-0001, because of the impact of the DPAs that are now measured for  
846 the first time, and which tend to negatively impact the Company’s collection of  
847 revenues. My recommended 2.2 day reduction to the revenue collection lag has the  
848 effect of reducing Ameren’s proposed overall revenue lag of 55.68 days to 53.48  
849 days.

850 **Q. Turning to the Electricity Distribution Tax (“EDT”) cash working capital**  
851 **issue, how does Mr. Weiss explain the dramatic change in the timing of**  
852 **payments of this tax that cause the calculated lead day to swing from a positive**

853           **30.13 value in the previous study to a negative 49.17 day value in the current**  
854           **study?**

855       A.       At page 17 of his testimony, Mr. Weiss states:

856                     Electric Distribution Tax: The Electricity Distribution Tax is imposed  
857                     on a utility based upon kilowatt hours delivered to its customers. The  
858                     tax is paid in four quarterly installments on the 15th of March, June,  
859                     September and December. The first payment also includes a true-up  
860                     for the prior year. The Company has also consistently received credit  
861                     memos for previous years and the credit memo received in 2014 for  
862                     the 2012 tax year is included in the calculation. Based upon the actual  
863                     payment dates and amounts, an estimated weighted expense lead time  
864                     of negative 49.17 days was determined. No float time was included  
865                     since payments are made by wire transfer.  
866

867           In his workpapers, Mr. Weiss has reflected quarterly payments of the EDT in equal  
868           amounts on March 14, June 13, September 30 and December 15 of 2014, that would  
869           have produced a payment lead day value for this tax of about 30 days, which is  
870           comparable to the calculations employed within the Company's previous lead lag  
871           study result. However, the inclusion of an "EDT credit memo for tax year 2012"  
872           dramatically changes the resulting overall lead day value, because Mr. Weiss treats  
873           this credit as a prepaid amount with a 438 day payment lead.<sup>27</sup>

874       **Q       Has the Illinois Department of Revenue consistently issued credit memoranda**  
875           **to Ameren based upon statutory limitations placed upon the total amount of**  
876           **EDT that can be retained by the State?**

877       A.       Yes. Details concerning this process and the history of credit memoranda can be  
878           observed in the Company's responses to data requests AG 3.04 and 4.04, which I  
879           have included in AG Exhibit 1.11.

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<sup>27</sup> See Ameren WPB-8, page 293 "Electric Distribution Tax" at line 3. Prepayment treatment is also applied to a smaller "2013 True Up" amount in Mr. Weiss' EDT lead day calculations.

880 **Q. Should Ameren be allowed to increase its CWC in rate base to account for the**  
881 **delayed credit memos for overpaid EDT amounts, as proposed by Mr. Weiss?**

882 A. No. The Company has provided no evidence that shareholders, rather than  
883 ratepayers, have provided the EDT cash that was initially over-collected by the  
884 State, and later returned via subsequent credit memo. Ameren collects EDT from  
885 its customers through its “Tax Additions” tariff, providing at Ill. C.C. No. 1, 4<sup>th</sup>  
886 Revised Sheet No. 41.001:

887 B. EDT Cost Recovery Section 1 of the Public Utilities Revenue  
888 Act imposes a Distribution Tax on the Company based on the  
889 quantity of electricity that is delivered in the State of Illinois.  
890 This tax is a replacement for the invested capital tax on electric  
891 utilities. In order to recover the Distribution Tax amount imposed  
892 upon the Company by the State of Illinois from Customers taking  
893 electric delivery service from the Company, the Company will  
894 collect from such Customers an EDT Cost Recovery based on  
895 the Customer’s electric use as measured in kilowatt-hours  
896 (kWhs) which are delivered to the Customer. The EDT Cost  
897 Recovery charge to be applicable to each kWh delivered to  
898 Customers taking service under each applicable Rate is shown in  
899 the Delivery Charges Informational Sheet supplemental to the  
900 Rate MAP-P tariff.<sup>28</sup>

901  
902 Since the tariff provides for EDT recovery, “based on the Customer’s electric use as  
903 measured in kilowatt-hours” it is entirely possible that Ameren customers, rather  
904 than the Company’s shareholders, have advanced the EDT funds that were used to  
905 pay excessive EDT amounts that were later returned via credit memoranda to the  
906 utility. Absent a showing by the Company that EDT charges to customers through  
907 the Tax Additions tariff were reduced in anticipation of future credit memos from  
908 the State, there is no basis to conclude that the Company has experienced any

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<sup>28</sup>

Available at: <https://www.ameren.com/-/media/illinois-site/Files/Rates/AIel41otta.pdf>.

909 additional Cash Working Capital investment for the delayed credit memos from the  
910 State.

911 **Q. What is the correct Electricity Distribution Tax lead day value, if the**  
912 **Commission agrees with you that the effect of prior period credit memos**  
913 **should be removed from the Company's lead day calculation?**

914 A. The Company has calculated the revised lead day value, without prior period credit  
915 memos, to be 31.51 days, as set forth in Attachment 2 to its response to AG 3.04  
916 that is included within AG Exhibit 1.11. I have adopted that revised lead day value  
917 in my calculation of the appropriate, reasonable CWC allowance in this docket.

918 **Q. How have you quantified the overall change to Ameren's Cash Working**  
919 **Capital rate base allowance that you recommend?**

920 A. Yes. AG Exhibit 1.3 at pages 4 and 5 set forth a revised calculation of CWC based  
921 upon the adjusted revenue lag and EDT payment lead values discussed herein.  
922 These calculations are based upon input expense values included within Ameren's  
923 initial filing and will require updating to base the final CWC calculation upon  
924 Commission-approved expense and lead/lag day inputs.

925 **Q. Does this conclude your testimony at this time?**

926 A. Yes.